



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
CALIFORNIA HORSE RACING BOARD
YEAR ENDED JUNE 30, 1978**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT F - 660

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

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FINANCIAL AUDIT REPORT
CALIFORNIA HORSE RACING BOARD
YEAR ENDED JUNE 30, 1978



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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July 30, 1979

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the California Horse Racing Board, Year Ended June 30, 1978.

The auditors are Curt Davis, CPA; Michael C. Dendorfer, CPA; Jeffrey A. Winston; Gus M. Demas; and Thomas R. DeWitt, Jr..

Respectfully submitted,

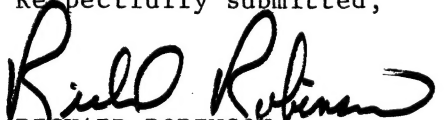

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the California Horse Racing Board. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

These are the California Horse Racing Board's objectives:

- Protect the betting public
- License racing associations
- Sanction every person who participates in any phase of horse racing
- Designate racing days and charity days
- Act as a quasi-judicial body in matters pertaining to horse racing meets
- Enforce laws, rules and regulations pertaining to horse racing in California
- Promote the horse racing and raising industries.

The Fair and Exposition Fund supports the programs of the California Horse Racing Board.*

* A separate report on the Fair and Exposition Fund is being issued.

The board's major sources of revenue are derived from parimutuel license fees, breakage, unclaimed tickets and occupational license fees. All revenues, except for those supporting the California Standardbred Sires Stakes Program, are deposited with the State Treasurer to support other General Fund programs.

AUDITOR'S OPINION


To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the California Horse Racing Board as of June 30, 1978 and the related statements of revenues, expenditures and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the California Horse Racing Board at June 30, 1978 and the results of operations and changes in fund balance and operating clearing for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying financial statements captioned "Total - Memorandum Only" for June 30, 1978, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying balance sheet and statements of revenues, expenditures and changes in operating clearing and fund balance for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.


Wesley E. Voss
Assistant Auditor General

Date: March 14, 1979

Staff: Curt Davis, CPA
Michael C. Dendorfer, CPA
Jeffrey A. Winston
Gus M. Demas
Thomas R. DeWitt, Jr.

CALIFORNIA HORSE RACING BOARD
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978
(With Unaudited Amounts for 1977)

	GOVERNMENTAL FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUP	TOTAL (Memorandum Only)	
	General	Special Deposit	General Fixed Assets	June 30, 1978	June 30, 1977
<u>ASSETS</u>					
Cash	\$4,552,485	\$1,663,293	\$ -	\$6,215,778	\$2,917,397
Equipment	-	-	1,706	1,706	1,416
TOTAL ASSETS	<u>\$4,552,485</u>	<u>\$1,663,293</u>	<u>\$1,706</u>	<u>\$6,217,484</u>	<u>\$2,918,813</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities:					
Accounts Payable (Note 2)	\$ 10,650	\$1,106,968	\$ -	\$1,117,618	\$ 193,680
Fund Equity:					
Investment in General Fixed Assets	-	-	1,706	1,706	1,416
Fund Balance:					
Designated for Track Operators'					
Deposits (Note 3)	-	80,000	-	80,000	70,000
Designated for Stallion Awards (Note 4)	-	438,453	-	438,453	410,730
Designated for Stewards' Compensation					
(Note 5)	-	37,872	-	37,872	-
Operating Clearing (Note 6)	4,541,835	-	-	4,541,835	2,242,987
TOTAL FUND EQUITY	<u>4,541,835</u>	<u>556,325</u>	<u>1,706</u>	<u>5,099,866</u>	<u>2,725,133</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$4,552,485</u>	<u>\$1,663,293</u>	<u>\$1,706</u>	<u>\$6,217,484</u>	<u>\$2,918,813</u>

The notes to the financial statements are an integral part of this statement.

CALIFORNIA HORSE RACING BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN OPERATING CLEARING - BUDGET AND ACTUAL
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

	1978			1977
	<u>Budget As Adjusted</u>	<u>Actual</u>	<u>Over (Under) Budget</u>	<u>Actual</u>
<u>Sources of Financial Resources</u>				
Revenues: ^{a/}				
Parimutuel License Fees	\$79,085,000	\$81,770,817	\$2,685,817	\$73,591,421
Occupational License Fees	380,000	501,890	121,890	439,670
Breakage on Parimutuel Pools	7,771,000	7,312,710	(458,290)	6,955,092
Fines	30,000	28,720	(1,280)	25,150
Unclaimed Parimutuel Tickets	1,025,000	1,134,393	109,393	940,927
Miscellaneous Revenues	3,000	75	(2,925)	5,309
Total Sources of Financial Resources	<u>\$88,294,000</u>	<u>90,748,605</u>	<u>\$2,454,605</u>	<u>81,957,569</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Personal Services	\$ 12,500	9,259	\$ (3,241)	1,826
Operating Expense and Equipment	37,500	1,537	(35,963)	739
Purses and Awards (Note 1)	--	118,503	118,503	--
Total Expenditures	50,000	129,299	79,299	2,565
Other:				
Transfer of Accountability to State Controller	--	88,320,458	--	81,861,133
Total Uses of Financial Resources	<u>\$ 50,000</u>	<u>88,449,757</u>	<u>\$ 79,299</u>	<u>81,863,698</u>
Net Increase in Operating Clearing		2,298,848		93,871
Operating Clearing - July 1		<u>2,242,987</u>		<u>2,149,116</u>
Operating Clearing - June 30		<u>\$ 4,541,835</u>		<u>\$ 2,242,987</u>

^{a/} Revenues are not budgeted in the legislative budget bill. The amounts shown on this statement are agency budgeted revenue amounts that are shown in the Governor's Annual Budget.

The notes to the financial statements are an integral part of this statement.

CALIFORNIA HORSE RACING BOARD
STATEMENT OF CHANGES IN FUND BALANCE
SPECIAL DEPOSIT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

	<u>1978</u>	<u>1977</u>
Fund Balance - July 1	\$ 480,730	\$ 375,581
Additions:		
Track Operators' Deposits	170,000	160,000
Stallion Awards Deposits	1,100,765	1,009,856
Stewards' Compensation Deposits	<u>409,888</u>	<u>--</u>
Total Additions	<u>1,680,653</u>	<u>1,169,856</u>
Deductions:		
Return of Track Operators' Deposits	160,000	140,000
Stallion Awards	1,073,041	924,707
Stewards' Compensation	<u>372,017</u>	<u>--</u>
Total Deductions	<u>1,605,058</u>	<u>1,064,707</u>
Fund Balance - June 30	<u>\$ 556,325</u>	<u>\$ 480,730</u>

The notes to the financial statements are an integral part of this statement.

CALIFORNIA HORSE RACING BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements reflect the financial position and results of operations and changes in fund balance and operating clearing of the California Horse Racing Board. The accounts are maintained in the General Fund and in the Special Deposit Fund.

The accounting policies of the California Horse Racing Board conform to generally accepted accounting principles.

General Fund

The California Horse Racing Board accounts for only its portion of the State's General Fund. The State Controller maintains central accounts for the General Fund and publishes annual consolidated General Fund statements.

Included in the board's portion of the General Fund is a special account for the California Standardbred Sires Stakes Program. This program established by Chapter 1148, Statutes of 1976, is funded by a percentage of the breakage from harness racing pari-mutuel pools. The purpose of this program is to encourage agriculture and horse breeding in California. For the fiscal year ended June 30, 1978, this program realized a total of \$245,221; \$118,503 of this amount was distributed for purses and awards.

Income:

Throughout the fiscal year, income is accounted on a cash basis. At June 30, all earned but uncollected revenues are accrued.

Expenditures:

Generally, expenditures are recorded during the year at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued.

Liabilities

Retirement Plan: Regular employees are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the board and employees contribute to PERS is actuarially determined under

a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued.

Vacation and Sick Leave: The board does not record the costs of vacation and sick leave at the time these benefits are accumulated. However, at the time of usage, the expenditures-personal services account is charged.

Special Deposit Fund

The board accounts for deposits paid by track operators to secure payment of license fees and deposits for stallion awards and stewards' compensation in the Special Deposit Fund. The State Controller maintains separate fund accounts for each agency and publishes consolidated Special Deposit Fund statements.

General Fixed Assets

Purchases of equipment are recorded as expenditures in the year of acquisition. Equipment with a useful life of two years or more, generally valued at \$150 or over, is recorded at original cost or, if not available, at fair market value.

2. ACCOUNTS PAYABLE

Accounts payable include all unpaid liabilities for goods or services received as of June 30. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller by June 30, but which had not been paid as of that date.

3. DESIGNATED FOR TRACK OPERATORS' DEPOSITS

Each application for a license to conduct a horse racing meeting requires a deposit in the amount of \$10,000 to secure the payment of the license fee. When the horse racing meeting ends and the license fee is paid, the deposit is returned to the licensee.

4. DESIGNATED FOR STALLION AWARDS

Any association conducting a thoroughbred racing meeting at which the parimutuel handle exceeds a specified amount must deposit a percentage of such amount in a separate account with a depository approved by the board. Stallion awards are then distributed on a pro rata basis to the owners of qualified thoroughbred stallions.

5. DESIGNATED FOR STEWARDS' COMPENSATION

Chapter 1080, Statutes of 1977 provided an assessment from each racing association for an amount equal to the pay and fringe benefits to be paid to the stewards assigned by the board to the race meet.

6. OPERATING CLEARING

The account balance at June 30 represents a clearing account between the California Horse Racing Board and the State Controller.

SUPPLEMENTAL INFORMATION

As an integral part of our examination, we reviewed the board's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the board's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

The foregoing financial statements contain certain adjusting entries which were necessary in order to achieve compliance with generally accepted accounting principles. The board fully concurs with the adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps